

## Message Text

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20

ACTION EB-11

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 NSC-07 SS-20

STR-08 CEA-02 PA-04 PRS-01 USIA-15 DRC-01 EUR-25 /191 W

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R 030655Z MAY 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 593

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E.O. 11652: N/A

TAGS: EFIN HK

SUBJECT: STOCK MARKET INDEX DIPS BELOW 300

REF: A-54, 4/11/74

SUMMARY: THE HONG KONG STOCK MARKET DIPPED BELOW ANOTHER PSYCHOLOGICAL LEVEL--(300)--ON MAY 1, THUS CONTRIBUTING TO THE ATMOSPHERE OF GLOOM PERVADING SOME CORNERS OF HONG KONG. THE ITALIAN IMPORT CURBS ARE NO HELP. TEXTILE MERCHANTS REPORT DECLINE OF ORDERS FROM THE IMPORTANT U.S. MARKET. BUT EXPORTS ROSE 40 PCT DURING THE FIRST QUARTER, OVER THE SAME 1973 PERIOD, SUGGESTING THAT DESPITE PROBLEMS (E.G. A TRIPLED FUEL BILL) HONG KONG'S ECONOMY IS NOT PANTING, AT LEAST NOT YET. END SUMMARY

1. THE STOCK MARKET CELEBRATED MAY DAY BY SLIDING DOWN TO THE LOWEST POINT REACHED SINCE DECEMBER 13, 1971. THE HANG SENG INDEX, WHICH REACHED THE 300 LEVEL THE DAY BEFORE, DROPPED BY 9.86 TO CLOSE AT 290.14. THE THREE BIG HONGS RETREATED, EVEN THOUGH JARDINES, THE LARGEST, HAD JUST ANNOUNCED RECORD-BREAKING 1973 PROFITS AND A HEFTY DIVIDEND. THIS IS A FAR CRY INDEED FROM THOSE HEADY DAYS IN LIMITED OFFICIAL USE

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MARCH 1973 WHEN THE INDEX REACHED ITS HEIGHT OF 1775.

THE DECLINE SINCE THEN HAS BEEN STEADY AND SEEMINGLY INEX-ORABLE. ANTICIPATED RALLIES HAVE NOT APPEARED. ON MAY 2, HOWEVER, THE MARKET MOVED BACK UP TO CLOSE JUST OVER THE 300 LEVEL.

2. SOME BROKERS SAID THAT THERE WAS NO PARTICULAR NEWS DEVELOPMENT DRAGGING THE MARKET DOWN, AND THAT CURRENT PERFORMANCE INDICATED COMPLETE LOSS OF CONFIDENCE AMONG INVESTORS (READ SPECULATORS). OTHERS REPORTED THAT SOME COMPANIES WERE SELLING SHARES FOR CASH TO PAY DIVIDENDS OR TO EXPAND BUSINESS OPERATIONS. ONE BROKER SAID THAT MARGIN-TRADERS HAD BEEN FORCED TO SELL BY BANKS.

3. ON THE LATTER POINT, THE CONSULATE GENERAL HAD BEEN INFORMED BY SOME SOURCES THAT CHASE AND CITY BANK HAD RECALLED LOANS, THUS CONTRIBUTING TO THE SELL-OFF. SUCH ACTION IF TRUE, HOWEVER, COLD NOT BE A MAJOR INFLUENCE ON THE MARKET. CHASE AND CITY BANK HAVE RELATIVELY MINOR EXPOSURE TO BROKERS AND CUSTOMERS. OTHER BANKS, MORE HEAVILY INVOLVED, WERE CONSERVATIVE, GENERALLY EXTENDING LOANS TO COVER ONLY 30 PCT OF THE VALUE OF THE STOCK BEING PURCHASED, AND IN ONE CASE AT LEAST MOST LOANS WERE MADE WHEN THE HANG SENG INDEX STOOD AT 700. AS AN OFFICER OF THE BANKING COMMISSION SUGGESTED TO THE CONGEN MAY 2, BANKS NOW WOULD BE UNLIKELY TO SELL COLLATERAL, OR FORCE SALE BY CREDITORS, GIVEN THE CURRENT LOW LEVELS, BUT WOULD PREFER TO HOLD ON IN THE HOPE OF APPRECIATION.

4. SOME OBSERVERS SUGGEST THAT BARGAIN HUNTERS ARE SNAPPING UP SHARES BUT THAT THE TIGHT LIQUIDITY SITUATION LIMITS SUCH ACTIVITY. INVESTORS ALSO HAVE GROUNDS FOR PESSIMISM IN THE WAKE OF THE FUEL CRISIS. HONG KONG'S FUEL BILL FOR JANUARY-FEBRUARY 1974 IS TRIPLE THAT OF ONE YEAR AGO. IMPORT COSTS GENERALLY CONTINUE TO RISE. U.S. ORDERS FOR TEXTILES HAVE FALLEN OFF, AND SOME INDUSTRIALISTS ARE ATTEMPTING TO BREAK CONTRACTS WITH U.S. EXPORTERS COVERING TEXTILE MACHINERY. THE LATEST BLOW, ITALY'S IMPOSITION OF IMPORT CURBS REPORTED HERE MAY 1, ALSO OFFERS NO CHEER; HONG KONG EXPORTS TO ITALY (TOYS, TRANSISTOR RADIOS, CALCULATING MACHINES AND TEXTILES) ARE AFFECTED.

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HONG KONG EXPORTERS HAD BEEN COUNTING ON INCREASING SALES TO ITALY AND OTHER EEC COUNTRIES, AND NOW FEAR THAT BRITAIN MIGHT FOLLOW ITALY'S EXAMPLE.

5. DESPITE THIS INCREASING GLOOM, EXPORT FIGURES CONTINUE TO PROVIDE ENCOURAGEMENT. PROVISIONAL FIRST QUARTER STATISTICS SHOW EXPORTS UP 40 PCT AND IMPORTS UP 41 PCT. EVEN ALLOWING FOR INFLATION, THIS SUGGESTS THAT, DESPITE PROBLEMS,

HONG KONG'S ECONOMY IS STILL GROWING AT A PACE SIMILAR TO  
THAT OF 1973 WHEN THEY ROSE 7 PCT IN VOLUME TERMS. PRESUMABLY  
OTHER MARKETS LIKE JAPAN, AUSTRALIA AND WESTERN EUROPE  
HAVE SO FAR BEEN TAKING UP THE SLACK LEFT BY DECLINING  
(IN VOLUME TERMS) EXPORTS TO THE U.S. PESSIMISTS POINT  
OUT, HOWEVER, THAT THE GAP BETWEEN DOMESTIC EXPORTS AND  
IMPORTS NET OF RE-EXPORTS IS WIDENING, AND SUGGEST THAT  
TOURISM AND OTHER INVISIBLES MAY FALTER IN FILLING THE  
GAP.  
CROSS

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